



# A STUDY OF SEGMENT REPORTING PRACTICE IN INDIA

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## ABSTRACT

The objective of segment reporting is to precisely identify and analyze business opportunities as well as risks. Accounting standards 17, 'Segment Reporting', issued by the council of the Institute of chartered Accountants of India. Segment reporting helps to improve profitability and also aids in managing risk by making available disaggregated segment data for detailed analysis of the firm. This paper highlights the need and impact of segment reporting and found that reporting of segment data is vital not only from the point of view of investors but in long run it will positively contribute for growth of company as well as whole business economy.

**KEYWORDS:** Segment, Accounting standard, economic decisions, disaggregated information.

## INTRODUCTION:

Globalization & intense competition made stakeholders more aware about detailed analysis of reports of companies. Many companies are also diversifying their business into various segments. A consolidated financial statement does not provide classified information of performance of various segments of companies. It results in hiding of information of performance of individual segment of the firm. Due to incomplete information of performance of segments of companies, stakeholders find it difficult to take vital decisions.

Hence, it is very important to make segmental information available to stimulate economic decisions of the stakeholders. To provide such accounting information related to segments, the major accounting institutions like International Accounting Standard Committee & Institute of Chartered Accountants of India constituted accounting standard required to disclose such information relating to segment reporting.

## LITERATURE REVIEW:

Mary Stanford Harris (1998) studied the association between competition and Managers Business Segment Reporting decisions and found very close association between them. The paper investigates the relation between levels of industry competition and manager's choices of which operations to report as business segments. It examines the relation between industry and firm characteristics and manager's segment definition decisions. Evidence on factors that influence management's identification of business segments is timely as the Financial Accounting Standards Board, the Canadian Accounting Standards Board, and the International Accounting Standards Committee have revised disaggregated disclosure requirements.

Vivek Mande (2002) examined the information content of business segment disclosures of multi-segmented Japanese firms on the Nikkei 225 index. Japan has required that business segment data be disclosed in annual financial statements since 1990. Specifically, researchers test whether Japanese analysts' forecast accuracy of consolidated sales and net income improves following the disclosure of segment data. The study finds that the introduction of the segment reporting standard aids analysts in forecasting sales of well-diversified firms, but there is no improvement in the forecast accuracy of earnings.

S. Aravanan (2002) in his article "Segment Reporting -Towards More Informed Judgment" has discussed about the need for segment reporting, its evolution, and the rules for classifying the segment as reportable segment. He studied the reportable segment of five corporate as per AS-17 for the period 2001-02. The findings of the study showed that the segment reporting is definitely a right step in the right direction towards improving the quality of financial statements. There will be problems of both orientation and implementation but gradually the problems would disappear and segment reports would serve the purpose for which they are advocated

Dr. Bhabatosh Banerjee and Dr. Swagata Sen (2004) in the article "Segment Reporting Practices in India" has discussed about the segment reporting practices in the corporate sector, suggestions for further improving the segments. They studied the segment reporting practices in the corporate sector of BSE Sensex companies for the year 2001-02. They examined the reporting practices both in respect of primary and secondary segments, and the nature, number, size and the items disclosed are analysed with respect to each.

Michael L.Ettredge, Soo YoungKwon, David B.Smith and Paul A.Zarowin (2005) studied The Impact of SFAS No. 131 Business Segment Data on the Market's Ability to Anticipate Future Earnings. The study investigates the effect of firms' adoption of SFAS No. 131 segment disclosure rules on the stock market's ability to predict the firms' earnings, as captured by the forward earnings response coefficient (FERC).

Zaiem, ABY Zghidi (2011) examined the relationship between the product adaptation strategy and the export performance of a company, taking into account the impacts of the internal characteristics of the company and the business segment. The findings of a questionnaire investigation of about 120 industrial exporting companies demonstrated that the business segment, the type of the exported product, as well as the number of served countries affect the adaptation strategy of the exported product.

Rishi Manrai, Rudra Rameshwar and Vinay Kumar Nangia (2014) reveals a significant relationship between the variables like Diversification strategy, capital structure, systematic risk, corporate profitability, corporate size and corporate growth. The study is useful for corporate world to enhance their corporate performance using diversification strategy and plan their capital structure accordingly. F J. Peter Kumar and Dr. G Sridharan (Sept. 2014) addressed the subject of segment reporting of the Indian Listed Companies falling under select Industries according to the accounting standard 17 issued by The Institute of Chartered Accountants of India. There are several studies on the segment information pattern adopted by the companies conducted in various other countries where accounting standard on segment reporting was followed some years back.

Rimaben A. Kalola (2015) studied 'Segment reporting practice in selected companies. She stated that the main aim of segment reporting is to properly identify & analyze business opportunities and risks. Institutional investors should act as a pressure group and should consider good segment disclosures practices as investment decisions. She also suggested that companies should disclose both their Business and relevant Geographical disclosures on their websites to enable stakeholders to have access to information.

## Need Analysis:

Analysis of companies with single line of business is easier than more complex structure of companies having more than one line of business. It requires some additional data to analyze such multi-segment companies. Traditional annual reports does not contain segment wise information of the company & hence it was necessary to have some reporting standard to provide such detailed segment wise information to stakeholders

Users of financial information require detailed information for decision making process related to economic decisions. While analyzing diversified firms, segment data will be very useful for segment wise sales and profitability analysis. This will result in better financial performance appraisal of the company.

## Incorporation of segment Reporting:

Following are important milestones which made segment reporting as mandatory disclosure:

1974	Issue of SFAS 14 standard by Financial Accounting Standard Board (FASB) of USA
1975	Issue of IAS 14 by International Accounting Standard Committee(IASC)
1977	Revised IAS 14 by IASC
July 1, 1988	IAS 14 became effective by Securities Exchange Board of India (SEBI) for listed companies.
April 1, 2001	AS 17 became compulsory for listed & to be listed companies in India.

AS-17 is applicable in respect of:

1. Enterprises whose equity or debt securities are listed on a recognized stock exchange in India and are in the process of listing as evidenced by the board of directors' resolution in this regard.
2. All commercial, industrial and business reporting enterprises, having turnover exceeding Rs. 50 crores.
3. All commercial and business reporting enterprises having borrowings including public deposits in excess of Rs. 10 crores at any time during the period.
4. Banks including co-operative banks
5. Financial institutions

#### Types of Segments:

1. Business segment
2. Geographical segment

#### Key concepts in Segment reporting :

**Segment:** A Segment is an identifiable component of a business subject to risk and returns attached to that component. Depending on the risk and returns attached to each segment of the business, the segments can be classified into 1.

**Business segment:** A business segment is a distinguishable component of an enterprise engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other Business Segments.

The business segment is governed by certain factors they include: Nature of product or services e.g. Cement, Steel, Paper etc., Nature of production processes, Type or class of customers, Methods used to distribute the products or services, Nature of the regulatory environment e.g. Banking, Insurance or public utilities.

**Geographical Segments:** A geographical segment is a distinguishable component of an enterprise engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those components operating in other economic environments. The geographical segment is recognized by considering factors under mentioned: Similarity of economic and political conditions, e.g. democracy vs. military rule, Relationship between operations in different geographical areas, Proximity of operations, e.g. North East (implied absence of proximity), Special risks associated with operations in particular area, Exchange control regulations and the underlying currency risks e.g. Euro vs. Dollar.

#### Impact Analysis:

In segment reporting, segment accounting policies are incorporated. Segment revenue and segment expenses are calculated to determine segment results. Segment analysis helps to find out profit making as well as loss making segments. Segment reporting discloses vital information which ultimately fulfills data requirement of users of financial statements.

Some studies focused on insider trading have revealed that post-segment reporting period insider trading profit has disappeared or decreased. Lagging sector or areas can be traced through segment data analysis & can be used to improve identified segment performance in future. The firms who disclose more information to investors are considered less risky & hence investors are more willing to invest in the company & it lowers the cost of capital of the firm.

#### Significance of Segment Reporting:

1. Segment reporting helps to find out strong & weak segments of the company.
2. It aid to find out loopholes in the business tracing non-contributing segments of the business.
3. It provides information about business as well as geographical segments.
4. It assists in improved corporate financial reporting.

5. Disaggregated information in segment reporting is extremely useful for financial statement users.
6. Segment reporting is useful to trace sales growth of the company & finds areas for improvement for future sales.
7. It aid in better risk management of the business undertaking.
8. It reduces agency cost of disclosure of vital information & also helps to reduce insider trading.

#### CONCLUSION & DISCUSSION:

As a result of globalization & liberalization of Indian economy since 1991, companies have diversified their operations in different products & services as well as in different geographical segments. Profitability, growth & risk vary sector wise as well as geographical area wise. Segment reporting provides a more valuable data in the hands of stakeholders for appraisal of each unit of business & also indicates the segments which improve or negate overall value of the firm. Segment reporting supported detailed corporate disclosure policy which will ultimately help in building better economic development platform for all stakeholders.

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